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Viewing cable 10QUITO53, Ecuador Rebuffs International Companies on Balance of

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Understanding cables

Every cable message consists of three parts:

- The top box shows each cables unique reference number, when and by whom it originally was sent, and what its initial classification was.
- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
- The bottom box presents the body of the cable. The opening can contain a more specific subject, references to other cables ([browse by origin](#) to find them) or additional comment. This is followed by the main contents of the cable: a summary, a collection of specific topics and a comment section.

To understand the justification used for the classification of each cable, please use this [WikiSource](#) article as reference.

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If you find meaningful or important information in a cable, please link directly to its unique reference number. Linking to a specific paragraph in the body of a cable is also possible by copying the appropriate link (to be found at the paragraph symbol). Please mark messages for social networking services like Twitter with the hash tags **#cablegate** and a hash containing the reference ID e.g. **#10QUITO53**.

Reference ID	Created	Released	Classification	Origin
10QUITO53	2010-02-02 14:38	2011-08-30 01:44	CONFIDENTIAL	Embassy Quito

Appears in these articles:

<http://www.eluniverso.com/2011/04/27/1/1355/cable-246775.html>

VZCZCXYZ0002
OO RUEHWEB

DE RUEHQT #0053/01 0331438
ZNY CCCCC ZZH
O 021438Z FEB 10
FM AMEMBASSY QUITO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0900
INFO RUCPDO/DEPT OF COMMERCE WASHINGTON DC IMMEDIATE
RUEAIIA/CIA WASHINGTON DC IMMEDIATE
RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE
RUEHBJ/AMEMBASSY BEIJING IMMEDIATE 0013
RUEHBR/AMEMBASSY BRASILIA IMMEDIATE
RUEHBS/USEU BRUSSELS IMMEDIATE 0001
RUEHCV/AMEMBASSY CARACAS IMMEDIATE
RUEHGL/AMCONSUL GUAYAQUIL IMMEDIATE
RUEHGV/USMISSION GENEVA IMMEDIATE
RUEHLP/AMEMBASSY LA PAZ FEB OTTAWA IMMEDIATE
RUEHPE/AMEMBASSY LIMA IMMEDIATE
RUEHSO/AMCONSUL SAO PAULO IMMEDIATE
RUEHBO/AMEMBASSY BOGOTA
RUEHME/AMEMBASSY MEXICO
RUEHQT/AMEMBASSY QUITO

C O N F I D E N T I A L QUITO 000053

SIPDIS

E.O. 12958: DECL: 2035/02/02

TAGS: [ECON](#) [EINV](#) [ETRD](#) [EFIN](#) [COM](#) [USTR](#) [ECPS](#) [PREL](#) [EC](#)

SUBJECT: Ecuador Rebuffs International Companies on Balance of Payments Safeguards

REF: QUITO 96; 09 QUITO 5...

id: 246775

date: 2/2/2010 14:38

refid: 10QUITO53

origin: Embassy Quito

classification: CONFIDENTIAL

destination: 09QUITO509|10QUITO96

header:

VZCZCXYZ0002

OO RUEHWEB

DE RUEHQT #0053/01 0331438

ZNY CCCCC ZZH

O 021438Z FEB 10

FM AMEMBASSY QUITO

TO RUEHC/SECSTATE WASHDC IMMEDIATE 0900

INFO RUCPDO/DEPT OF COMMERCE WASHINGTON DC IMMEDIATE

RUEAIIA/CIA WASHINGTON DC IMMEDIATE

RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE

RUEHBJ/AMEMBASSY BEIJING IMMEDIATE 0013

RUEHBR/AMEMBASSY BRASILIA IMMEDIATE

RUEHBS/USEU BRUSSELS IMMEDIATE 0001

RUEHCV/AMEMBASSY CARACAS IMMEDIATE

RUEHGL/AMCONSUL GUAYAQUIL IMMEDIATE

RUEHGV/USMISSION GENEVA IMMEDIATE

RUEHLP/AMEMBASSY LA PAZ FEB OTTAWA IMMEDIATE

RUEHPE/AMEMBASSY LIMA IMMEDIATE

RUEHSO/AMCONSUL SAO PAULO IMMEDIATE

RUEHBO/AMEMBASSY BOGOTA

RUEHME/AMEMBASSY MEXICO

RUEHQT/AMEMBASSY QUITO

----- header ends -----

C O N F I D E N T I A L QUITO 000053

SIPDIS

E.O. 12958: DECL: 2035/02/02

TAGS: [ECON](#) [EINV](#) [ETRD](#) [EFIN](#) [COM](#) [USTR](#) [ECPS](#) [PREL](#) [EC](#)

SUBJECT: Ecuador Rebuffs International Companies on Balance of Payments Safeguards

REF: QUITO 96; 09 QUITO 509

CLASSIFIED BY: Christopher A. Landberg, Economic Counselor, U.S. Department of State, Economic Section; REASON: 1.4(B), (D)

Summary

¶1. (C) Three of the most recognizable companies in the world, Apple, RIM (Blackberry), and Nokia, concluded a three-day visit to Ecuador in January with the impression that they have limited to no ability to influence GoE trade and investment decisions. In attempting to convince GoE officials to eliminate tariffs imposed in January 2009 for balance of payments purposes, the companies highlighted the broader benefits of mobile telephony and argued that the tariffs had resulted in missed opportunities and lost revenues for Ecuador. GoE officials confirmed they will stick to the recently announced plan of gradually reducing the safeguards over six months, rather than complying with the GoE's agreement with the WTO to terminate them January 22, 2010. Furthermore, the

GoE is seeking other means to continue protection for key sectors, mainly industries with local production such as textiles and footwear. Several officials asserted that the GoE's overriding economic policy was import substitution industrialization, and pushed hard for the companies to open production facilities in Ecuador. Embassy demarches on this issue reported in ref A. End Summary.

Theme of Visit: Missed Opportunities and Lost Revenues

¶2. (C) Representatives of Apple, Blackberry maker RIM, and Nokia, along with a representative of the Information Technology Industry (ITI) Council, traveled to Ecuador January 18-21. The purpose of the trip was to convince the GoE to eliminate the 35% tariff it had imposed on all cell phone imports in January 2009. This tariff was on top of the existing 15% tariff on most cell phone imports. Ecuador imposed similar trade restrictions on 627 products in January 2009, invoking the WTO's balance of payments (BoP) provisions (see ref B and previous for background). U.S. and Canadian Embassy officials helped the companies arrange meetings with top GoE officials at the Ministry of Industry, MFA, InvestEcuador, Telecommunications Ministry, as well as with the AmCham in Quito. The Embassy also hosted a roundtable for the companies with Canadian, Brazilian, Mexican, and EU officials.

¶3. (C) The company representatives told EmbOffs that they focused during their meetings with GoE officials on the broader benefits of IT, and mobile telephony in particular, and the negative impact the higher tariffs were having on Ecuadorian consumers and businesses. They pointed to a World Bank study that estimated that a 10% increase in internet connectivity translates into a 1.3% real increase in GDP. They also pointed out the possibilities for improving access to banking services, real-time ag-sector information, medical services (especially in remote areas), and educational tools.

¶4. (C) According to the Apple and RIM reps, they also emphasized

during their meetings the available business opportunities in the market for applications, noting that Ecuador already has several small software companies involved in creating applications for both Blackberry and iPhone. Apple's representative highlighted the potential commercial and educational benefits of tapping into the existing world market of 70 million iPhone users, and played a Chilean news clip during all meetings showing how Chilean software companies are sprouting up to develop iPhone apps - providing jobs and paying taxes. Nokia briefed GoE officials on its program to provide free email services, particularly in remote regions.

¶5. (C) The company reps also argued that, in the case of IT products, the higher tariffs had not had a positive BoP impact and had resulted in lower tax revenues for central and local governments. While legal imports of mobile telephone devices plunged 70% during 2009, local telecom companies' subscriptions for mobile telephones increased 30% during the same period. This implies that Ecuadorians are smuggling the devices into Ecuador, probably at inflated prices. The result is an outflow of dollars, the opposite of what the GoE had hoped to accomplish by imposing trade restrictions. It also results in lost tax revenues and lost jobs connected to legal device sales. The companies estimated the value of illegal mobile telephones entering Ecuador in 2009 at almost \$211 million. Added to the legal imports in 2009 of over \$66 million, this easily exceeds total imports of \$213 million in

2008, when no restrictions were in place.

¶16. (C) While a few GoE interlocutors sympathized with the broader argument of the benefits of opening up to IT, most, and particularly those involved in trade policy decisions, reacted defensively to the companies' arguments against the safeguard provisions. However, the arguments related to lost revenues resonated, to the point where the companies felt the need to clarify that all original sales of these devices were legal and the companies were not in a position to help the GoE determine how the devices were entering illegally.

¶17. (C) At the end of the three days of meetings, the company reps had come to the conclusion that their arguments were not working with government officials focused on protecting existing local jobs and complying with President Correa's orders to eliminate Ecuador's BoP deficit. (RIM/Blackberry reps received a similar reception from GoE officials during a solo trip to Ecuador in October 2009.) The Apple and RIM reps in particular concluded their visit with the impression that stories of how private individuals and entrepreneurs can get rich writing applications do not resonate with an openly socialist government that regularly calls for wealth redistribution and advocates a much greater government role in the economy.

Ecuador Plans on Gradual Elimination of Safeguards

¶18. (C) GoE officials disputed the tech companies' conclusions, arguing that the safeguards had largely succeeded in their main purpose: to turn around the BoP deficit the country experienced between the fourth quarter of 2008 and second quarter of 2009. (Due to a large BoP surplus in third quarter of 2009, the BoP balance was marginally positive through the first nine months of

last year.) These GoE officials were adamant in supporting the plan that Ecuador's Foreign Trade and Investments Council (COMEXI) announced December 22, 2009, to reduce the tariff safeguards by an initial 10% (across the board on all 627 products) starting January 2010 and eliminate them altogether in stages by June 2010. In public comments, Coordinating Minister for Production, Natalie Cely, who is also the President of COMEXI, explained that the reason for the gradual decrease in safeguard levels was to avoid an "avalanche of imports" into the market.

¶19. (C) Telecommunications Minister Jorge Glass, among the most supportive of the multinational companies' position, informed them that COMEXI had agreed on the following rough schedule for tariff reductions: 10% on January 23, 23% on February 23, 33% on April 23, and 33% on June 23. Ref A reports key GoE officials giving assurances that COMEXI will publish this schedule "to ensure maximum transparency" in the process, despite concerns that this could cause supply disruptions as suppliers delay sales to take advantage of lower tariff levels in the future. (This may, in fact, be the GoE intent.)

¶110. (C) Several GoE officials informed the companies that the government was searching for means to continue protections for sensitive sectors. President Correa has reaffirmed this policy in public, arguing that the GoE needed to protect vulnerable sectors from "unfair competition, such as from China, where the monthly salary is \$30." Correa and other GoE officials have publicly

provided assurances that the GoE will eliminate the BoP safeguards and in their place impose more specific protective measures that are WTO-consistent. U.S. and Ecuadoran private sector representatives tell Econ and FCS officers that the GoE is mostly concerned with protecting the textile and footwear industries, both of which have benefitted enormously from the high tariffs of the last year.

Other Embassies' Perspectives

¶11. (C) The Embassy hosted a roundtable January 19 with EU, Brazilian, Mexican, and Canadian officials. (This represents the three visiting companies' home countries, U.S., Canada, Finland, as well as RIM's Mexico manufacturing site and Nokia's Mexican and Brazilian manufacturing sites.) Given the GoE's complicated relationship with the U.S., the companies were eager to get support from Brazil, Mexico, and the EU in both Ecuador and Geneva. Officials from the Brazilian, Mexican, and EU missions noted that their focus was on talks in Geneva. The EU rep said she could not intervene locally until she received instructions from Brussels. Mexico's rep said her Embassy had not received instructions, but commented that Mexico was in the middle of negotiating a bilateral commercial treaty with Ecuador (under ALADI). While the next round of talks had been postponed until March due to the turmoil in Ecuador's MFA, she noted that the GoM was developing a list of specific products and sectors for preferential access and suggested IT products could be considered for inclusion. (The companies will follow up directly with the GoM.)

¶12. (C) The Brazilian EmbOff said he had met with GoE officials over the safeguards issue, which violated Ecuador's trade agreement

with MERCOSUR, but argued that the GoE is short-term focused and the safeguards support political objectives. (MERCOSUR mobile devices enter duty free, so only face a 35% tariff rather than the 50% tariff facing non-MERCOSUR imports.) Canada's EmbOff stated that the GoC is working closely with colleagues in Geneva and also raising the issue with GoE officials in Ecuador. She commented that COMEXI's initial 10% reduction appeared to be a violation of WTO rules, and speculated that the GoE might need to dismantle the current measures and request another WTO exception in order to reinstate new safeguards. ITI's rep pointed out that the WTO was already questioning the process with which Ecuador applied safeguards on 627 products, and speculated the WTO would therefore view critically the GoE's efforts to continue protections. (Normally countries apply safeguards to all imports and then exempt specific products. Ecuador did the opposite. EmbOffs have heard that GoE officials haphazardly picked products until they reached President Correa's specific target for reducing imports by \$1.5 billion.)

"Ecuador is a Socialist Nation...Pursuing Import Substitution"

¶13. (C) The GoE does not appear to be specifically targeting IT or mobile telephony products for the long-term, since there is no local production. Therefore, the companies were fairly confident that the GoE would most likely follow through on eliminating the 35% safeguards tariff by the GoE's new June/July deadline. However, Nicholas Trujillo, the Director of InvestEcuador (the

GoE's investment promotion agency), pushed hard in his meeting with the companies for them to consider opening production facilities in Ecuador. Trujillo waved off the companies' standard presentation on the benefits of mobile telephony, saying that "Ecuador is a socialist nation...its guiding economic policy is import substitution industrialization." He also disregarded the companies' explanations that their manufacturing facilities are already established for the region, stating emphatically that, "the President wants cell phones produced here."

¶14. (C) Trujillo liked the arguments related to the development of Ecuador's software industry, but showed his bias in supporting ideas that maintained a significant government role, such as having the GoE and provincial governments establish incubators for software startups. Some of Trujillo's other ideas were for the GoE to start an Ecuadoran site similar to Amazon.com to market Ecuadoran products and to market Panama Hats through the internet, in order to educate the world that "Panama Hats" actually originate in Ecuador. In all three cases, he saw the GoE as the driving force, rather than having the government establish the right conditions to promote private sector innovation and risk-taking.

¶15. (C) Hector Rodriguez, a top official at SENPLADES (the Secretariat for Planning and Development), who participates on COMEXI's board and is one of the main architects of GoE trade policies, reiterated many of Trujillo's arguments during a January 21 meeting with EconCouns. While sympathetic to arguments on the benefits of opening up to IT, Rodriguez emphasized that Ecuador needs value-added industries that provided employment. He asked the Embassy to pass the message to Apple and RIM that not only is the GoE ready to eliminate the 35% safeguard tariffs on mobile telephone imports, but if these companies open production facilities in Ecuador, the GoE will eliminate the normal 15% tariff

for their products and even provide financial incentives.

Comment

¶16. (C) Apple and RIM are among the most iconic companies in the world, and their products are synonymous with technological innovation and economic progress. Their products are ubiquitous within the GoE; in fact, the government virtually operates on Blackberries, with the President and most other Ministers and high-level officials sporting two of them at a time. Therefore the reception these companies received in Ecuador was disappointing. While we did not expect GoE officials to alter their six-month timeframe for dismantling the safeguards, we did expect them to use the visit as an opportunity to develop relationships with the companies that are driving next generation economic growth. Instead of welcoming these companies with open arms, GoE officials met them with arguments in favor of import substitution and demands for local production, demonstrating that the current government is short-term focused and lacks the vision necessary to make sure this country of only 14 million people remains economically competitive in the coming decades. As the companies figured out for themselves, GoE leaders are not looking to unleash the entrepreneurial spirit in Ecuador, rather are more interested in leveling society, protecting what they have, and allowing foreign companies into Ecuador on their terms.

HODGES

=====CABLE ENDS=====